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October 28, 2008

**VIA ECFS**

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Re: *Notice of Ex Parte Notification*: Developing a Unified Intercarrier Regime, CC Docket No. 01-92

Dear Ms. Dortch:

During meetings relating to the Chairman's proposed intercarrier compensation reform plan, we have been asked about the likely financial impact to competitive telecommunications carriers. Since we have not been privy to the details of the draft order, we cannot estimate the likely financial consequences with precision. Based upon trade press descriptions of the proposal currently circulating, however, it is evident that most competitive local exchange carriers (CLECs) will lose important intercarrier compensation revenue streams, and will not be given an opportunity to recoup the majority of the lost revenue elsewhere. Specifically, as we have explained in other *ex-parte* presentations, quickly driving CLECs' intrastate switched access charge rate levels nationally to the level of current interstate switched access charge prices would result in a sizeable loss of revenue, and an even larger reduction in our free cash flow. Longer term, replacing the current TELRIC pricing methodology with a short run incremental cost/marginal cost pricing methodology would effectively eviscerate virtually the entire revenue stream from CLECs' intercarrier termination services. This will have a severe negative impact upon our ability to raise capital, finance operations, comply with maintenance covenants in existing loan documents, and further invest in broadband network facilities deployment.

Specifically, CLECs, as a group, currently derive approximately six (6) percent of our total annual revenue from intercarrier compensation. A significantly higher percentage of our free cash flow is derived from our provision of these intercarrier compensation services. Migrating to a short run incremental/marginal cost pricing methodology would effectively eliminate these revenue sources entirely over time. Although increased subscriber line charges ("SLCs") may enable us to recoup some of these losses from end users, we lack the pricing power to sustain SLC increases sufficient to recover much of the loss, especially as our national economy sinks into recession. Although we are amenable to reducing our switched access rates over time, the transition must be gradual and the targeted rate levels must enable carriers to recover their reasonable long run costs plus a reasonable profit.

Importantly, our experience is not atypical. Raymond James earlier today described the FCC's proposed intercarrier compensation overhaul as creating a "Cash Flow Death Spiral" for rural and competitive carriers.[1] They reported that "[t]he net effect of the order appears to be a decline in access-based revenue...that would have a materially adverse impact on free cash flow (FCF) and capital availability. We estimate that the average company in the group impacted by the ruling would experience a 10% revenue decline and a 38% decline in FCF. We would also expect multiple contraction and skepticism toward investing in the group by debt and equity investors for some time should the order pass."[2] Raymond James described the likely impact upon rural and competitive carriers as "swift and negative."[3] As for the question "Does Anyone Win?", the analyst answered that "[y]es, the regional Bell operating companies (RBOCs) should come out way ahead...The access revenue they will pocket without any requirements to give it back will be very significant...."[4]

Clearly what is proposed would benefit the largest providers of telecommunications service in the county, the RBOCs and their shareholders, at the expense of nearly every other telecommunications service provider and our shareholders as well as the consuming public. The fact that such RBOCs already are incredibly profitable -- paying dividends to their shareholders in excess of seven (7) percent today -- makes plain that they are

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[1] Raymond James & Associates, "Intercarrier Compensation Reform: Potential Impact From an FCC Order" (Oct. 27, 2008), attached hereto (Raymond James Report) at 3.

[2] *Id. at 1.*

[3] *Id. at 3.*

[4] *Id.*

not in need of any sort of aid, and, that the proponents of the current plan are simply exercising political influence to get what they can before the national elections occur.

Sincerely,

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